



# COMMISSION ON INSURANCE

## COUNTY OF LOS ANGELES

November 22, 2005

The Honorable Board of Supervisors  
County of Los Angeles  
383 Kenneth Hahn Hall of Administration  
500 West Temple Street  
Los Angeles, CA 90012

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Dear Supervisors:

RECOMMENDATION REGARDING SUPPORT OF THE  
FEDERAL TERRORISM RISK INSURANCE ACT (TRIA)  
AND A RECOMMENDED TWO-YEAR SUNSET  
EXTENSION OF TRIA BY THE U.S. CONGRESS -  
RECOMMENDED ACTION FROM LOS ANGELES  
COUNTY COMMISSION ON INSURANCE (3-VOTE) (ALL  
DISTRICTS)

### **IT IS RECOMMENDED THAT YOUR BOARD:**

1. Support the Federal Terrorism Risk Insurance Act (TRIA) which requires insurers to offer commercial terrorism policies and provides federal aid as a backstop to cover losses on the scale of September 11; and support a two-year extension of the TRIA;
2. Instruct the Executive Officer of the Board to send a five-signature letter to Senate Majority Leader Bill Frist and House Speaker Dennis Hastert, the Senate and House minority leaders, and the Los Angeles County Legislative delegation expressing the Board's support of the TRIA and a two-year sunset extension.

### **PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION**

The RAND Center for Terrorism Risk Management Policy released its study, "Trends in Terrorism: Threats to the United States and the Future of the Terrorism Risk Insurance Act" (TRIA). The study reports that the U.S. terrorism insurance system is falling short, and improvement is needed to protect the nation's economy. It points out that terrorism insurance does not cover losses caused by attacks from domestic terrorist groups. In addition, it says most insurance policies now exclude coverage for attacks involving chemical, biological, radiological and nuclear weapons (CBRN).

On top of this, many of the nation's businesses are not buying terrorism insurance that became available after the September 11, 2001 terrorists attacks, increasing the economic damage that would be caused by a new terrorist strike on the United States, the study finds.

The September 11 terrorist attacks caused substantial losses for the insurance industry, with current estimates topping \$32 billion in payments. As a result, insurance companies began excluding terrorism coverage from policies shortly after the attacks.

In response, Congress enacted TRIA in 2002, which requires insurers to offer commercial terrorism policies and provides federal aid as a backstop to cover losses on the scale of September 11. The move was seen as a step to give insurance companies time to assess their exposure to terrorism losses, and to consider how to price and underwrite terrorism insurance policies.

#### Implementation of Strategic Plan Goals

The recommended action is consistent with the County's strategic plan goals of Children and Families' Well-Being, Community Services, and Public Safety.

#### **FISCAL IMPACT/FINANCING**

The provisions outlined can provide a safety net for the County and its insurers.

#### **FACTS AND PROVISIONS/LEGAL REQUIREMENTS**

The RAND study notes that a number of trends in terrorism have increased the risk to the private sector since September 11. These include an increased focus on "soft" business and commercial targets, both as a result of heightened security at government and military facilities and due to the degradation of al Qaeda's operational capacity to execute long-range strategic strikes.

In addition, the report points out that al Qaeda has shown increased interest in launching attacks designed to cause mass disruption and economic harm, magnifying the importance of private sector targets. One scenario with the potential for devastating uninsured losses that was highlighted in the report was an attack with a so-called "dirty-bomb" – an explosive device that disburses radioactive material.

The Commission recommends support of a two-year extension to TRIA by the U.S. Congress. TRIA may not be a perfect fit, but it offers a short term solution and a safety net to Los Angeles County residents. The RAND study says an extension could be done without increasing costs to taxpayers by changing the terms of federal reinsurance.

The report also says that Congress should consider:

- Expanding and improving the financial protections offered by Terrorism Risk Insurance Act (TRIA), instead of allowing the law to expire as scheduled in December;
- Requiring that terrorism insurance cover acts by domestic groups and attacks involving CBRN. Researchers acknowledged that the latter poses a challenge that may be most appropriately covered through a direct government insurance program; and
- Creating a national board of governors that can assess the performance of TRIA or its successor.

Attached is a summary of two RAND Corp. studies, HR 1153 (Capuano) that would extend the terrorism insurance program of the Department of the Treasury, and a letter in support of TRIA from the Chief Administrative Office, Risk Management Branch.

**IMPACT ON CURRENT SERVICES (OR PROJECTS)**

The recommended action is designed to safeguard and protect the County and its residents.

Respectfully submitted,

SCOTT SVONKIN  
Chairperson

c: Chief Administrative Officer  
County Counsel  
Executive Officer

Attachments